

Memorex: This is 'the year of restoration'

After staggering losses of \$128 million, its third profitable quarter in a row

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all up, Wilson boasts that 1975 is "the year of the restoration" for Memorex.

The silver-haired Wilson, 55, a former General Electric Co. and Rockwell International Corp. executive, had precious little to work with when he succeeded Memorex's expansion-minded founder, Laurence L. Spitters, as chief executive. Along with the losses, the company had closed 1973 with a hefty \$226 million in long-term debt and with liabilities exceeding assets by \$87 million. Employees were deserting the company in droves. Vendors were demanding cash in advance of shipments. And although the company's products were highly regarded, many customers were reluctant to buy because they no longer considered the company viable.

Fresh from a successful corporate turnaround effort at Collins Radio Co. (now owned by Rockwell), which he lifted from a \$64 million loss in 1972 to a \$13 million profit the following year, Wilson got right to work trying for an encore at Memorex. Initially, he spent 14-hour work days cajoling creditors,

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handholding with customers, firing and hiring, giving employee pep talks, and paring costs across the board (He even turned in his Cadillac for a Vega).

The crisis is over. Although Memorex lost \$9 million last year and liabilities still exceed assets by \$4.5 million, Wilson now considers the company's viability assured. In this year's first nine months revenues jumped 23%, to \$194 million, while the company posted a \$12.2 million profit, including \$7.1 from tax-loss carryforwards and a securities transaction. "There was clearly a crisis a while ago, but that is over," says Paul M. Dorfman, a Bank of America vice-president. The bank is Memorex's major creditor and played a key role in Wilson's joining the company.

Memorex was a loose collection of product groups with "no master strategy," recalls Donald E. Mattson, general manager of disk products. Under Spitters, the company made its mark in computer tape. In the late 1960s the company plunged into the highly competitive peripherals market, including setting up its own leasing subsidiary, ILC Peripherals Leasing Corp., followed by entry into the mainframe computer business in the early 1970s. Memorex based everything on

"the growth of the revenue dollar regardless of cash flow," says Charles Askanas, president of Quantor Corp., a Memorex competitor.

Memorex's interest costs skyrocketed, price-cutting by IBM wracked the peripherals industry, and in 1973 the mainframe operation was shut down. Under pressure from the Securities & Exchange Commission and others, the company made a costly change in ILC's accounting procedures. In early 1974, Spitters resigned for "personal reasons."

Wilson was lured to Memorex by the challenge, a fat compensation package, and a promised refinancing of the company's debt by BofA. He has a five-year contract, calling for a \$200,000 base salary plus, depending upon future profits, up to \$400,000 in annual bonuses and retirement benefits guaranteed by BofA. Dorfman insists that Wilson "is surely worth it" if he can produce "substantial profits."

New loan. Wilson was initially contacted by a committee of Memorex directors, led by Benno C. Schmidt, a managing partner at J. H. Whitney & Co., a New York investment company. But Dorfman says the bank was "familiar with him and pleased to see him considered." In fact, the bank was so pleased that it delivered up-on a silver platter, says a former Memorex executive—the major refinancing.

Signed last year, the new loan agreement involved the conversion of \$40 million of debt to preferred stock, dropping the interest rate of other loans totaling \$169 million from 7% to 4% for four years, and extending a new \$35 million line of credit. "Management lib is spelled c-a-s-h," quips Wilson. "If debt service is too onerous, you don't have freedom to run the business."

With the debt taken care of, Wilson could turn his attention to organizational problems. He has arranged the company into five profit centers—computer peripheral equipment, computer media products, consumer and business products, and two overseas marketing groups. This established clear-cut profit responsibility and lines of authority, which Memorex had lacked. He also replaced seven of Memorex's nine top executives, apparently for good reason. A competitor says he hired some former Memorex senior-level managers but ended up firing them "because they did not have fundamental skills."

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the onetime Wall Street glamour company had lost a staggering \$119 million on revenues of \$177 million. But now after a critical recapitalization and a wrenching reorganization, Memorex is experiencing the first positive cash flow on an annual basis since its founding in 1961. It has a new growth strategy that emphasizes sale rather than leasing of its equipment. And this month the company reported its third straight profitable quarter. Adding it

ing door." Some 400 employees had quit in the preceding nine months as the company's survival grew doubtful. Wilson has added to this by slashing 125 middle managers as an economy measure. But employee morale is a major concern for Wilson. He likes to sum up his formula for corporate success in three words-attitude, cash, and profits. (The letters ACP are on his Vega license plates.) So to generate enthusiasm in the ranks, Wilson talked with everyone in the company, either individually or in small groups. Robert Chambers, chairman of Envirotech Corp. and a Memorex director, says Wilson's confidence is "contagious."

One of Memorex's major assets is its \$3 billion lawsuit against IBM

But J. Garret Fitzgibbons, a former Memorex vice-president now at TRW

Inc., says he still gets two or three calls a month from Memorex employees wishing to relocate. "Wilson is not an easy guy to work for," says Fitzgibbons. "He is a cold fish and violates the basic business rule, 'Always praise in public and criticize in private.'"

As part of his restructuring, Wilson has also changed Memorex's growth strategy. Since leasing is "a cash intensive way to operate," Wilson is pushing outright sale of computer peripherals. So far this year, these have increased 41% while leasing volume was flat. To get added mileage out of Memorex's 1,000-man sales and service organization, Wilson is entering joint agreements with other companies, such as Advanced Memory Systems Inc.

IBM suit. Memorex has added some AMS memory products to its own line. "Memorex has come to the understanding it can't do everything in house better than everyone outside,"

says Richard Andreini, an AMS vice president. Another consideration that Wilson has cut Memorex's research and development budget, from 6.3% of sales in 1973 to 3.4% last year.

To Wilson, rebuilding Memorex even includes vigorously pursuing the \$3 billion lawsuit filed against International Business Machines Corp. in 1973 to recover losses allegedly suffered because of that company's "predatory practices." Memorex expects the case to go to trial in 1977. Labeling the suit one of his company's "major assets," Wilson has established a separate legal department to develop data and make other preparations for the litigation.

But Wilson concedes that there are still "major problems" facing Memorex, including stiff competition from IBM. Even so, Wilson can breathe easier on at least one account. He seems certain to achieve his goal of making "solid profit" at Memorex this year.

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